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Final report

# BEYOND VALUE CHAIN MITIGATION (BVCM) ASSESSMENT

15<sup>th</sup> December

*The content of this deck has been produced by SYSTEMIQ  
for the SBTi*



# Agenda

Background & context

What we learnt from the interviews and the survey

Assessment of different approaches companies can take to beyond value chain mitigation

Options for the SBTi

# Initial note on terminology

At the start of the project it was agreed with SBTi to move away from use of the term “compensation” in its initial meaning (see below), and to instead use “beyond value chain mitigation” (BVCM). This deck therefore refers to BVCM throughout.

**Table: Excerpt from SBTi Net-Zero Standard Glossary**

Term	Definition	Comments
<b>Compensation</b> <i>(legacy terminology used in earlier versions of the SBTi Net-Zero Standard)</i>	Actions that companies take to help society avoid or reduce emissions outside of their value chain	SBTi is eliminating the term from use within its documentation.
<b>Beyond value chain mitigation (BVCM)</b>	Mitigation action or investments that fall outside a company’s value chain. This includes activities outside of a company’s value chain that avoid or reduce greenhouse gas emissions, or that remove and store greenhouse gases from the atmosphere.	Examples of BVCM include, but are not limited to: <ul style="list-style-type: none"> <li>• Forestry, e.g., Jurisdictional REDD+</li> <li>• Conservation projects, e.g., peatlands/ mangroves</li> <li>• Energy efficiency, e.g., cookstove projects</li> <li>• Methane destruction, e.g., landfill gas projects</li> <li>• Renewable energy, e.g., solar/ wind/biogas</li> <li>• Industrial gases, e.g., N<sub>2</sub>O destruction at nitric acid facilities</li> <li>• Scale-up of CDR technologies, e.g., Direct Air Carbon Capture and Storage (DACCS)</li> </ul>

# 1. BACKGROUND & CONTEXT

# Despite progress in the run up to COP26, there is still a significant ambition gap on climate

Country-level commitments and underlying policy are insufficient to limit warming to 1.5°C

## FINANCIAL TIMES

### Global warming of up to 2.7C by century's end forecast as COP26 pledges fall short

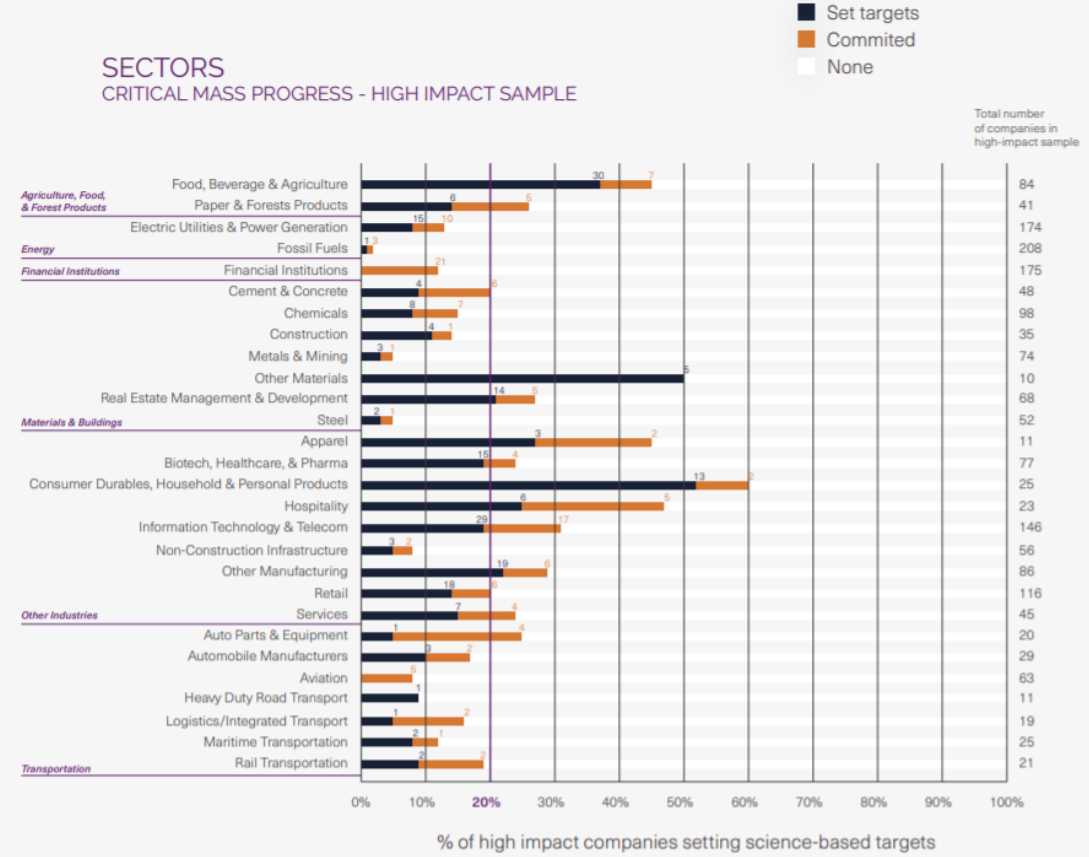
Updated analysis of UN climate summit commitments reveals significant gap with Paris accord goal of 1.5C



Activists protest for climate justice outside parliament in Cape Town, South Africa. Global temperatures have already risen around 1.1C © AP

Despite the exponential rate of companies voluntarily adopting SBTs, it is highly unlikely that all companies, in all regions of the globe voluntarily commit to set SBTs

## SECTORS CRITICAL MASS PROGRESS - HIGH IMPACT SAMPLE



# In recognition of the need to raise ambition, SBTi included optional recommendations on “compensation”\* in the 2021 Q1 public consultation on the NZ Standard

The draft recommendations on in the Q1 2021 public consultation encouraged companies to:

Publicly set a commitment

to compensate unabated emissions on an annual basis over a specified timeframe.

Undertake compensation actions

that address unabated value chain emissions, for example by providing annual support to projects, programs, and solutions that provide quantifiable benefits to climate, people, and nature.

Undertake a minimum level of compensation

proportional to the cost of unabated S1-3 emissions using an indicative carbon price that increases over time, or proportional to financial capability or cumulative historical emissions

Commit to quality conditions

on all compensation actions, including measurability, additionality, durability, unique retirement, verified impact and specifically for carbon credits a condition around vulnerability.

Commit to social & environment safeguards

through adhering to standards, publicly reporting on project/ programme details, guaranteeing informed consent from local communities & providing an accessible policy for transparently addressing complaints and grievances.

# The public consultation was inconclusive and SBTi therefore appointed SYSTEMIQ to do further work on this area over 2021

## Feedback

“

- In the proposed model on compensation, 50% of the stakeholders would be unsure whether to set a compensation\* target.
- Mixed responses whether companies should apply an indicative carbon price that increases overtime.
- High level of agreement on the quality conditions (67-84%).

”

## Decisions

“

- Recommendations on compensation need further refinement. Feedback received that the current model would not incentivize companies to set compensation targets.
- The SBTi is collaborating closely with EAG members and other stakeholders and conducting further research to explore this area in more detail.

”

## Further work



**WORLD RESOURCES INSTITUTE**

**REQUEST FOR PROPOSALS:**  
SBTi Net Zero, Compensation Consultant

**SUMMARY OF PROCUREMENT**

WRI intends to award a Fixed Price type contract for consulting services to support the Science-Based Targets initiative in making a decision on what role the initiative should play in the climate positive claims and targets space. By Fall 2021, the consultant will complete a landscape assessment, an objective assessment of compensation approaches, and assess options and provide recommendations for an SBTi strategy to incentivize compensation investment.

**Following an RfP process, SBTi appointed SYSTEMIQ to deliver:**

- 1. Landscape assessment**
- 2. Assessment of compensation approaches**
- 3. Recommendations on SBTi's role in incentivising and enabling compensation.**

\* As mentioned, the “compensation” terminology has since been phased out & replaced with “beyond value chain mitigation”

# SYSTEMIQ followed the below process...

## Survey

A survey was sent out through SBTi's networks, and we received 296 responses from 270 organizations/initiatives, including 149 corporates.



## Interviews

We conducted 27 interviews with 45 individuals.



## Analysis & assessment

- We conducted desk-based research on different models for BVCM.
- We defined criteria for high integrity & high ambition.
- We mapped pros and cons of different approaches.
- We explored different ways for defining “how much is enough”.

## Options & recommendations

- We provided recommendations to SBTi on:
  - Terminology
  - The approaches to BVCM and integrity guardrails
  - Further areas of research
- We articulated pros and cons of different options for SBTi's role in incentivizing and enabling BVCM.



## 2. WHAT WE LEARNT FROM THE INTERVIEWS & SURVEY

# We conducted 27 interviews with 45 individuals



Interview questions around 3 topics:

- A The pros and cons of **different beyond value chain approaches**
- B **Gaps in enabling and incentivizing** high quality beyond value chain investments
- C **Priority organizations** with whom **the SBTi could work** with to promote high quality beyond value chain investments.



# We also sent out a short survey to SBTi's networks & online

## Survey composition

### General questions

- The need to follow the mitigation hierarchy where value chain abatement is first order priority
- The need for companies to go above and beyond their SBTs to also invest in BVCM

### Business case, incentives & enablers

- Strength of the business case for BVCM
- What more needs to be done to incentivize and enable companies to do BVCM
- The role of the SBTi in creating those incentives and enablers

### Terminology

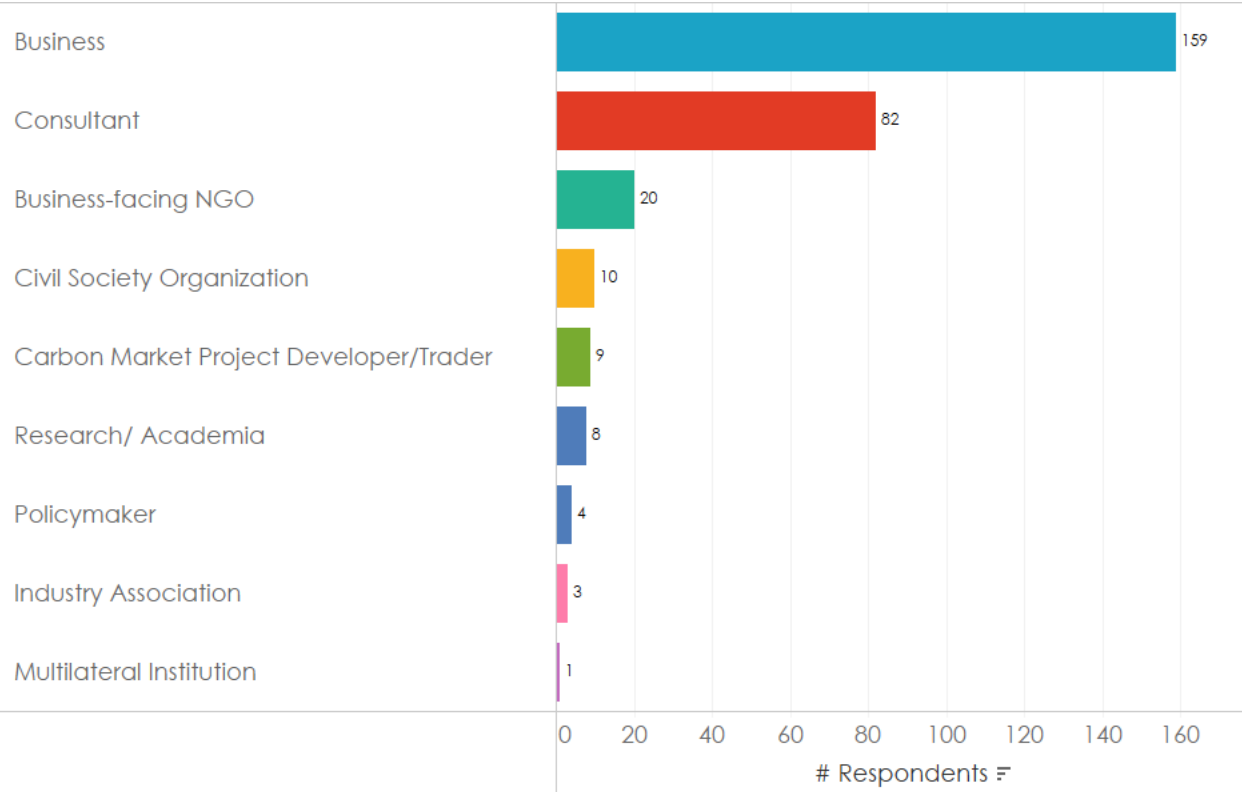
- Clarity around terminology including the distinction between compensation, neutralization and abatement
- Inclusion of removal activities in compensation
- Improvements in terminology

### Approaches to BVCM

- Whether BVCM should be based solely on purchase of credits
- Pros and cons market-based approaches
- How much BVCM is “enough”?

# We received 296 responses, from 270 organizations & initiatives

## Makeup of respondents

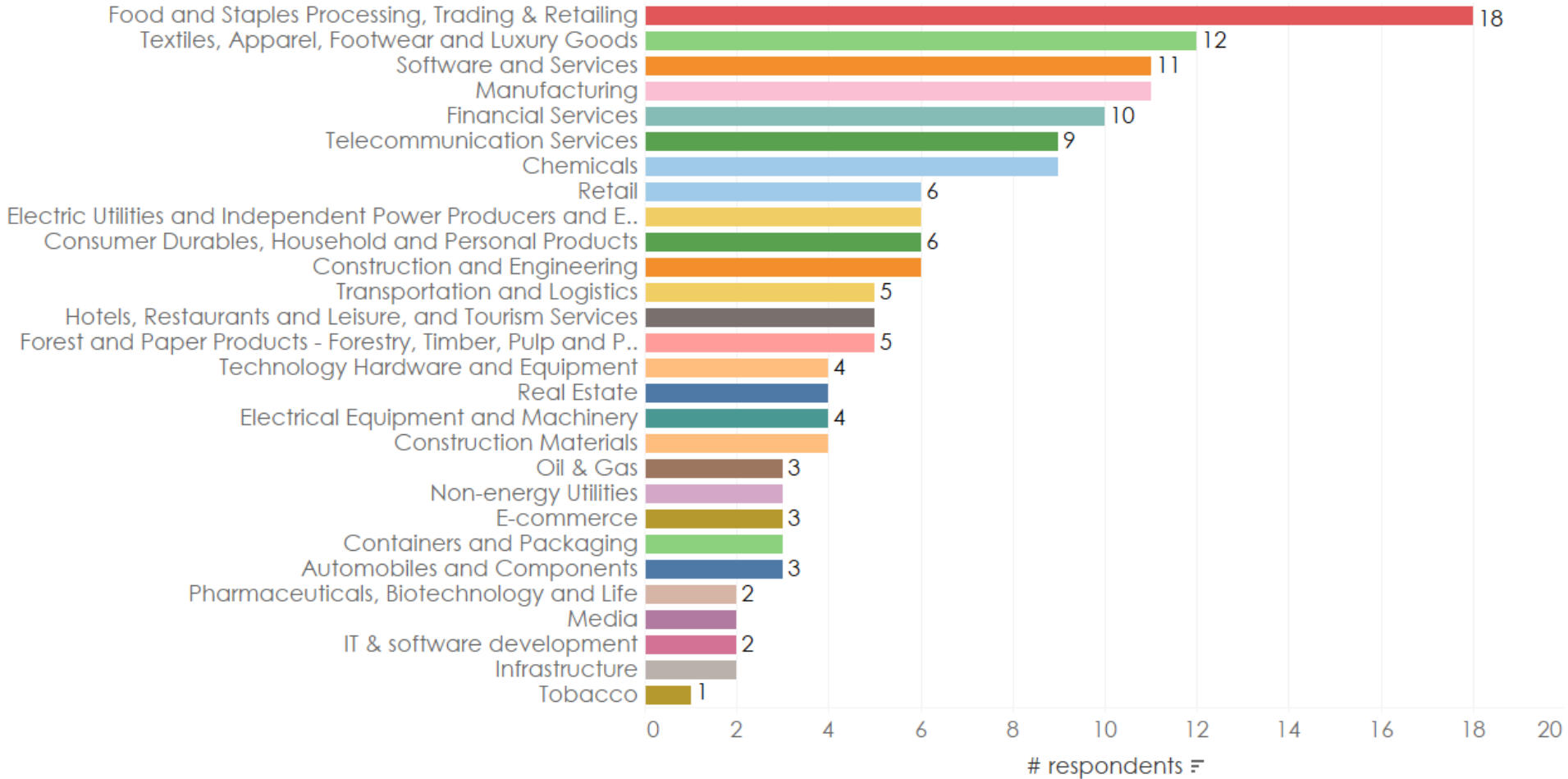


## Examples of survey respondents



# ... with a wide range of sectors covered

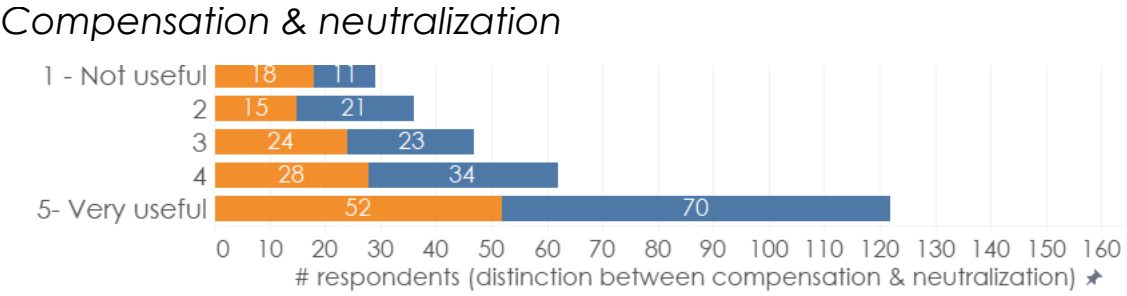
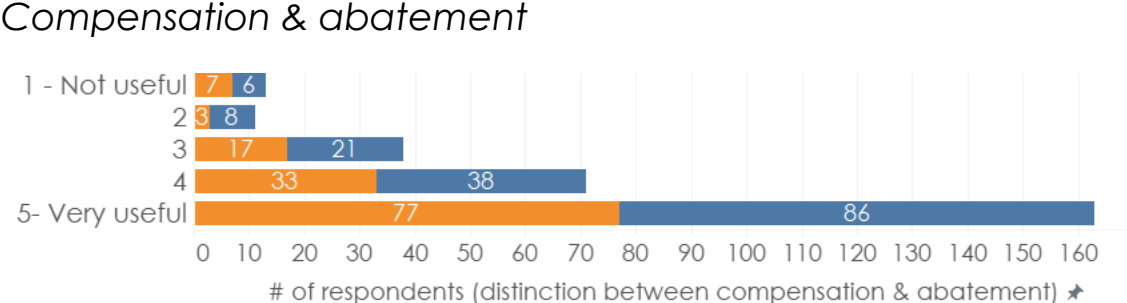
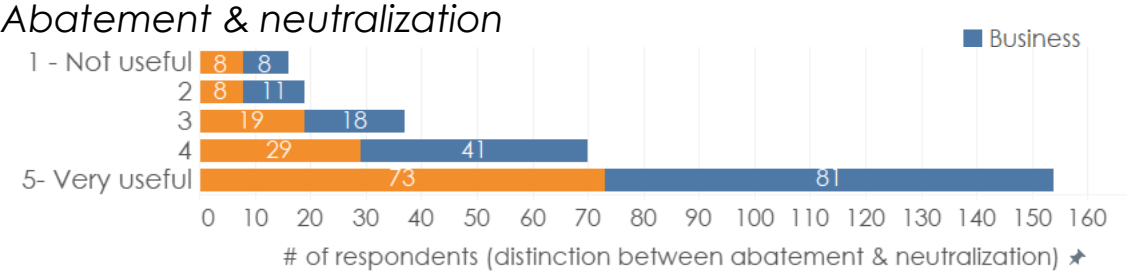
54% of respondents represented corporates\* (159), with 149 companies represented.



# Survey respondents and interviewees identified opportunities to improve terminology around different mitigation tactics

- 57% of survey respondents found the distinction between all 3 terms to be useful (scoring 4 or higher), rising to 81% including those on the fence.
- 79% of respondents supported the distinction between abatement & compensation, with a further 13% on the fence.
- 76% of respondents supported the distinction between abatement & neutralization, with a further 12% on the fence.
- 62% of respondents supported the distinction between compensation & neutralization, with a further 16% on the fence.
- 35% of respondents said compensation should be limited to emissions reductions while 47% said compensation should include removals.
- The majority of interviewees and a number of survey respondents were in favour of adding a temporal distinction i.e. where neutralization would refer only to residual emissions at the point of reaching net-zero.

## Do you find the distinction between these terms useful?

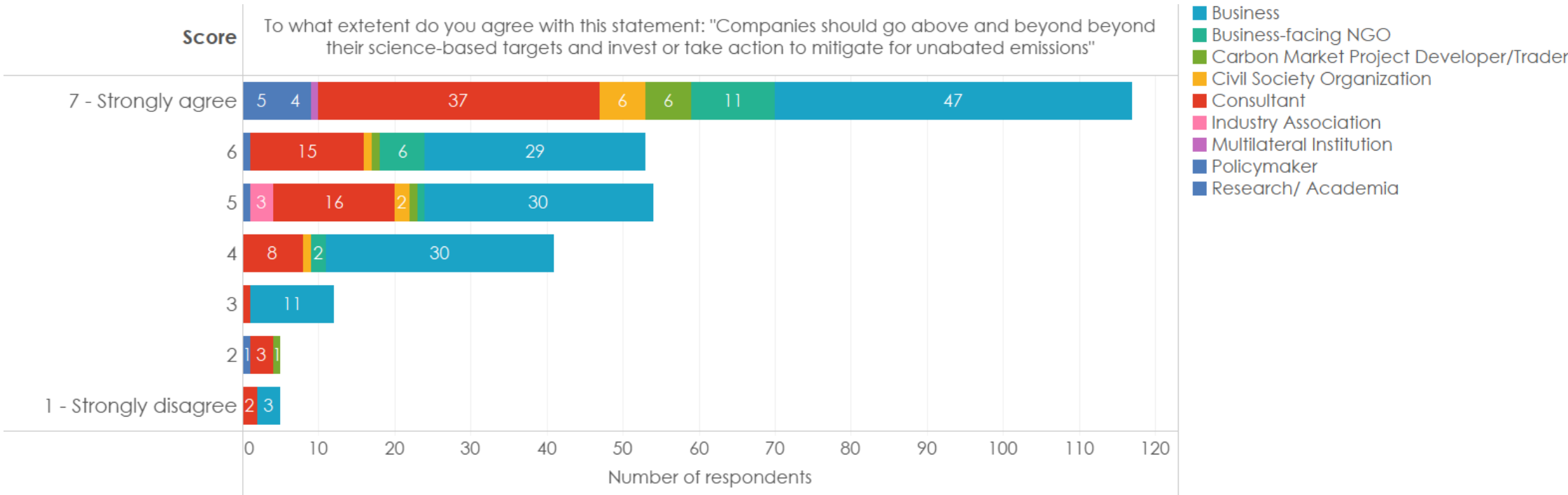


# SBTi has already taken this on board, phasing out compensation & moving towards “beyond value chain mitigation”

Term	Definition as per SBTi Net Zero Standard	Comments
<b>Abatement</b>	Measures that companies take to prevent, reduce or eliminate sources of GHG emissions within their value chain. Examples include reducing energy use, switching to renewable energy and retiring high-emitting assets.	No change in definition since the launch of Net Zero Foundations paper in September 2020.
<b>Compensation</b> (legacy terminology used in earlier versions of the SBTi Net-Zero Standard)	Actions that companies take to help society avoid or reduce emissions outside of their value chain.	SBTi is eliminating the term from use within its documentation.
<b>Beyond value chain mitigation (BVCM)</b>	Mitigation action or investments that fall outside a company's value chain. This includes activities outside of a company's value chain that avoid or reduce greenhouse gas emissions, or that remove and store greenhouse gases from the atmosphere.	This is a new term road tested and then included in the Net Zero Standard.
<b>Neutralization</b>	Measures that companies take to remove carbon from the atmosphere and permanently store it to counterbalance the impact of emissions that remain unabated.	“and permanently store” has been added to the definition since the launch of Net Zero Foundations paper in September 2020.



# 76% of respondents agree that companies should go beyond SBTs to also invest in BVCM (including 67% of business)



- 40% of respondents (117) strongly agree that companies should be doing BVCM.
- Overall, 76% are more in agreement than not (224), including 67% of businesses (108).
- 14% were on the fence (41), including 19% of businesses.
- 2% strongly disagreed that companies should be doing BVCM (5).
- Overall, 6% are more in disagreement than agreement (22).

e.g. "Companies may go beyond reduction and neutralization through removals but this should not be part of science based targets nor net zero."



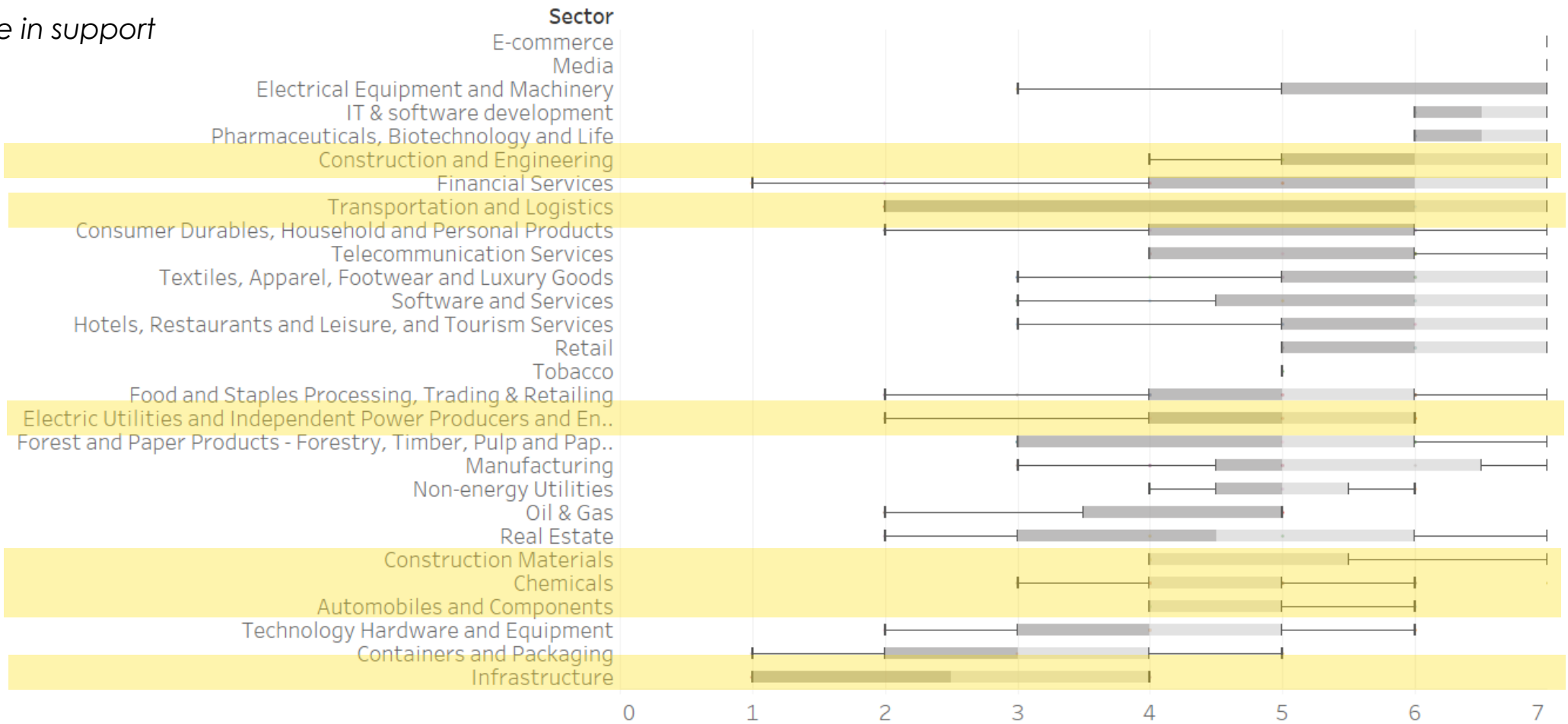
# There was generally a range of perspectives across sectors, with harder-to-abate generally less supportive of BVCM

Companies should go above SBTs and invest in BVCM

Higher median = more in support



Lower median = more in support

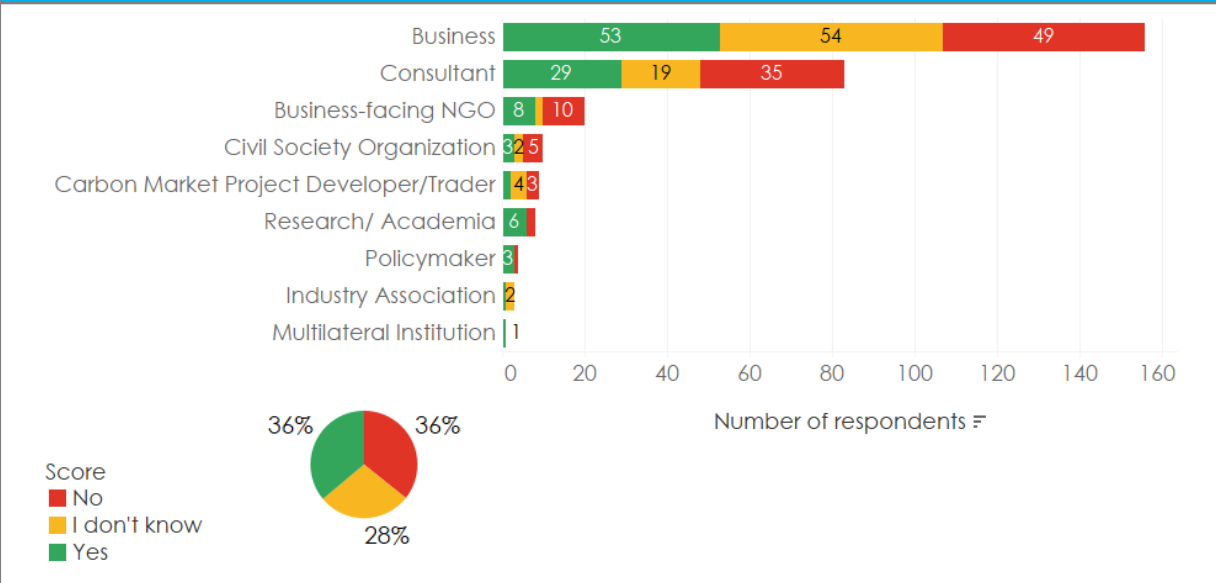


Harder-to-abate

Score (1= strongly disagree, 7= strongly agree) ★

# There was a mixed response on the approaches companies should follow in mitigating emissions outside their value chains

Do you envision BVCM to be solely focused on voluntary trading of carbon credits or are there other approaches which can and should be used?



What do you see as the pros and cons of market-based approaches i.e., where beyond value chain mitigation is voluntarily purchased via contractual instruments?

Pros	Cons
<ul style="list-style-type: none"> <li>○ Rigor e.g. discipline in measurement and claims</li> <li>○ Standardization</li> <li>○ Comparability</li> <li>○ Permanence</li> <li>○ Availability (ease of access to credits)</li> </ul>	<ul style="list-style-type: none"> <li>○ Size and complexity of carbon markets</li> <li>○ Not comprehensive of all types of carbon avoidance and removal</li> <li>○ Difficult sometimes given unpredictability of finance</li> <li>○ Significant overhead</li> <li>○ Risk of distraction from real abatement of emissions</li> <li>○ Risk of speculation</li> <li>○ Risk of greenwashing</li> </ul>

**Stick to credits**

**Other approaches to be included**

*“Keeping it simple is best, so no [stick to trading of credits].”*

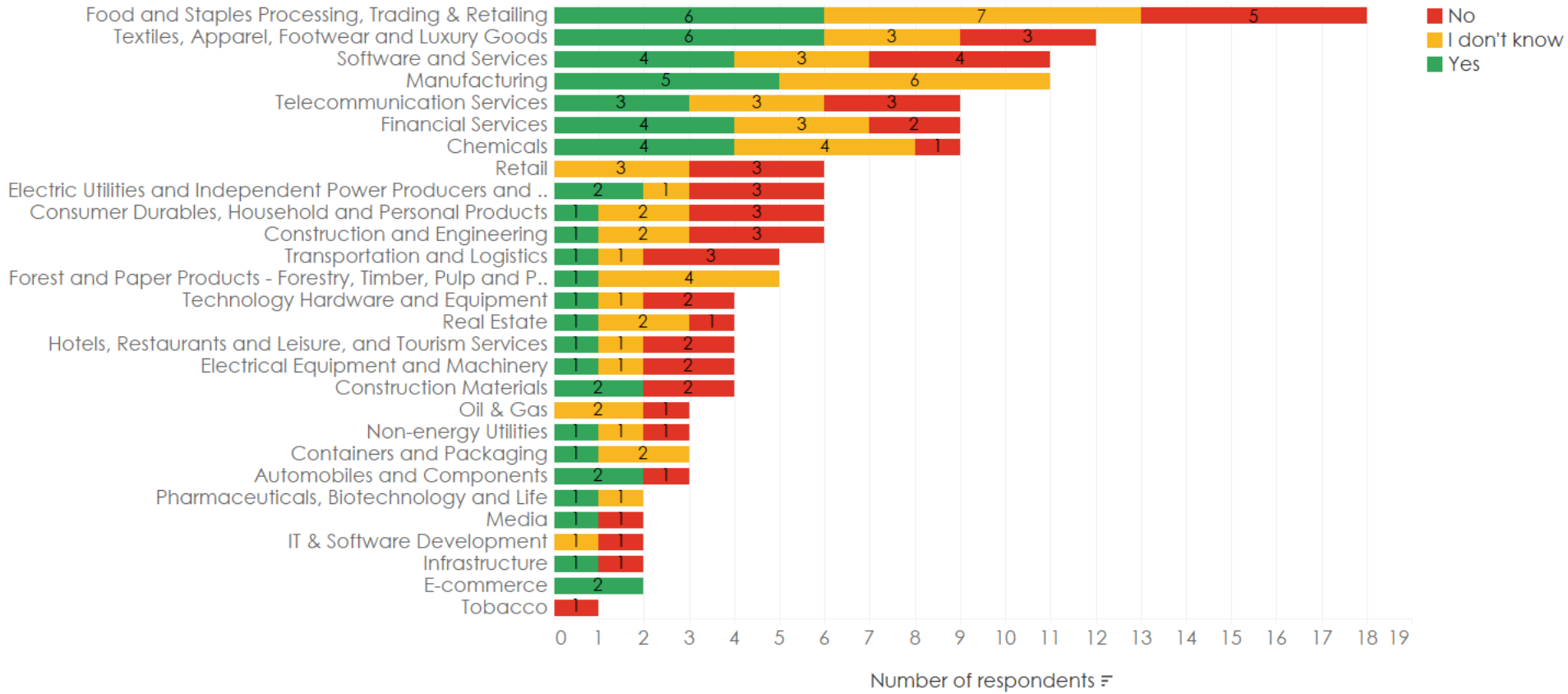
*“Carbon credits are the most widely known mechanisms, but there are others. We need to use all available tools.”*

*“Focus on voluntary trading of carbon credits, other mechanisms get very fast too complex to understand for lay person, which limits the comparability and communication possibility towards consumers.”*

*“The type of actions should be based on a clear categorization of areas needed to transform into a net-zero society, similar to the EU taxonomy.”*

# This mixed response was evident across all corporate sectors

Do you envision beyond value chain mitigation to be solely focused on voluntary trading of carbon credits, or are there other mechanisms/approaches which can and should be used?



\* This excludes businesses categorised as consultants on sustainability and net zero topics



# Interviewees and respondents had various thoughts on “how much” BVCM is “enough” to gain recognition



## 100% S1-3

“Compensation of **entire footprint for scope 1,2 and 3** 100% today would be the bar for a claim. That incentivizes them to bring down their emissions quicker because it will bring down their compensation costs.”

## Minimum % of profit/ income

“There should be a minimum of a percentage of your income directed towards mitigation and adaptation.”

## Polluter pays/ social cost

“Quantifying social costs of unabated emissions is probably difficult to achieve, and some companies question whether this would drive a bigger impact or ambition.”

“Who should take responsibility for defining the social cost of carbon?”

## Ambition levels

“Make it proportional to residual emissions in a given year. **You could give bronze, silver, gold, platinum with 30%, 50%, 80% and 100%**. It should be kept simple.”

## Need for sectoral nuance

“It depends on the sector., e.g. for tech it might be 100% for scope 1,2 and 3. But for cement, it might be lower.”

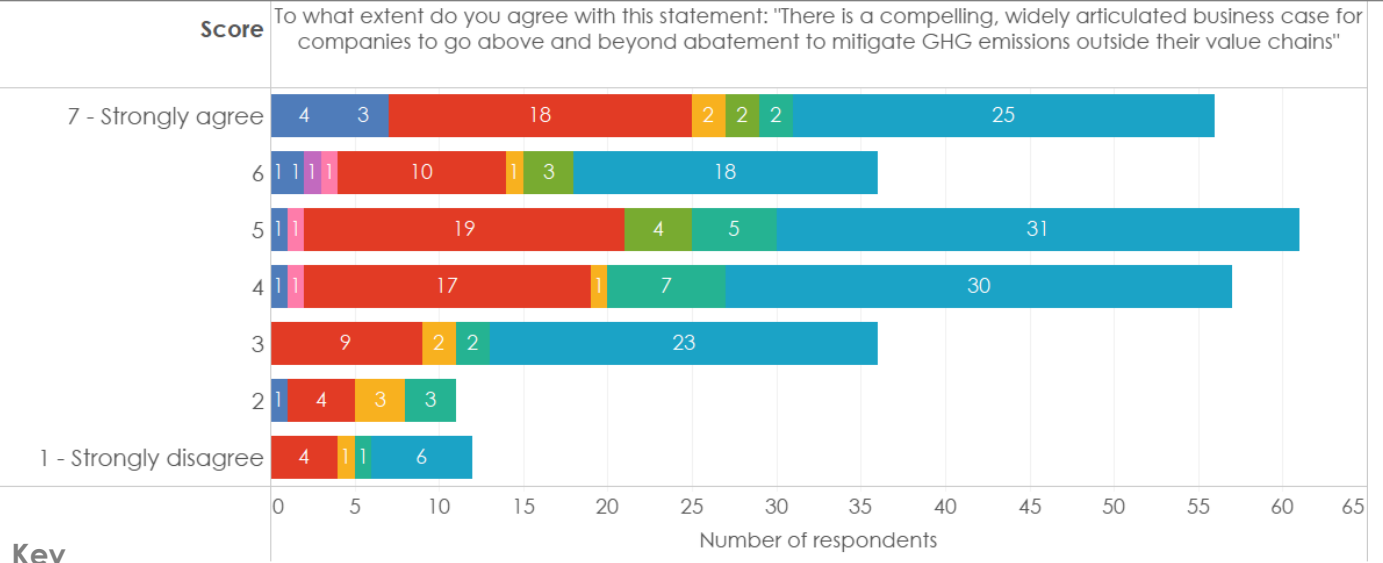
“Going above and beyond SBT's will vary significantly by sector and business e.g. services vs manufacturing”



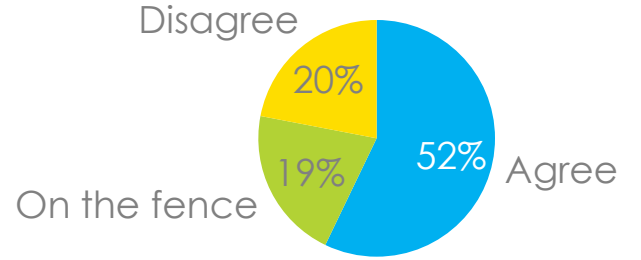
# Respondents were split as to whether the business case for BVCM was compelling & widely articulated

To what extent do you agree with this statement: "There is a compelling and widely articulated business case for companies to go above and beyond abatement to also mitigate climate change outside their value chains"

- 19% of respondents (count = 56) strongly believe there is already a compelling and widely articulated business case.
- Overall, 52% are more in agreement than not that the business case is exists and compelling (153).
- 19% were on the fence regarding the existence/ strength of the business case (57).
- 4% of respondents strongly disagree that the business case is compelling and clear (12%)
- Overall, 20% are more in disagreement than agreement (59).



**Key**  
 type 2  
 Business  
 Business-facing NGO  
 Carbon Market Project Developer/Trader  
 Civil Society Organization  
 Consultant  
 Industry Association  
 Multilateral Institution  
 Policymaker  
 Research/ Academia



# We asked survey respondents and interviewees about the below incentives and enablers, and the role of the SBTi in this regard

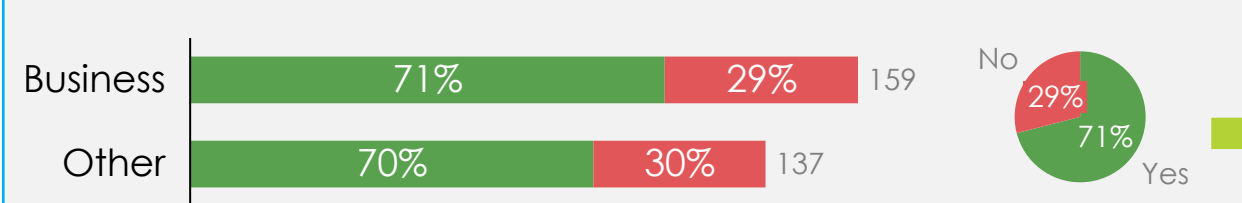
1. Clear **scientific and empirical data** to highlighting the ambition gap and the need for companies that consider themselves to be climate leaders to step up even further.
2. A clear **business case** for going beyond their “fair share” i.e. linked to reduced regulatory and transition risk and opportunities to improve their market share through enhanced brand value. For example, this entails clear evidence of the financial climate-related risks facing their business if we exceed the 1.5°C threshold.
3. Consistent standards around **consumer facing claims** on corporate performance and commitments
4. Clear **guidance and standards** for how to make high integrity investments in mitigation activity beyond their value chains that will reduce/avoid risk of greenwash accusation. This must also set out “how much is enough”.
5. A **mobilisation engine** which rallies businesses behind this critical agenda.
6. A **transparency infrastructure** which ensures that companies making high integrity investments in mitigation activity beyond their value chains get the reputational kudos of doing so, and creating transparency where companies are not, or where companies are misleading consumers and investors.

# Respondents believe SBTi should play a role in defining high integrity & high ambition action through guidance/ standards

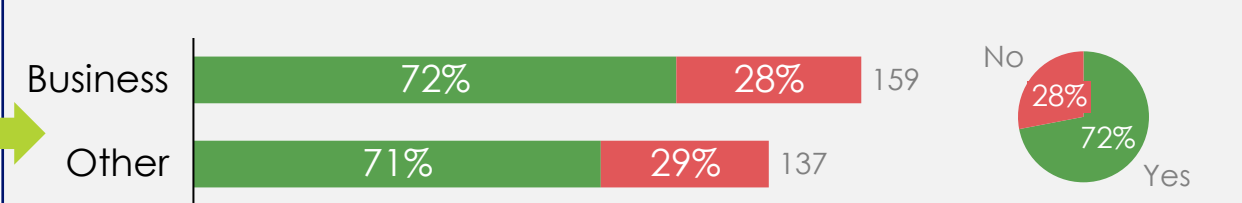
What more could be done to incentivize companies to go above and beyond abatement to voluntarily mitigate GHG emissions beyond the corporate value chain?

What role should SBTi play in this??

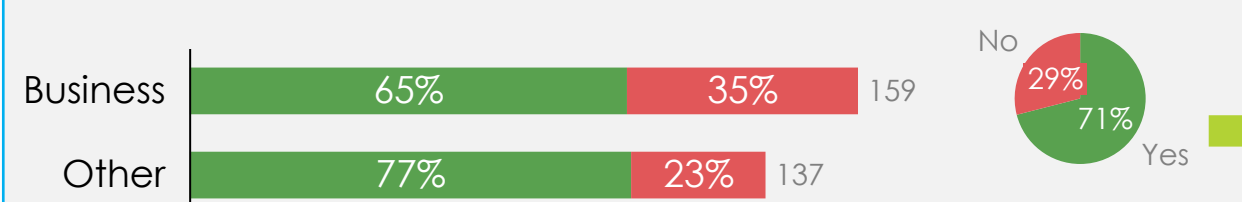
## Define high integrity & ambition action through guidance/ standards



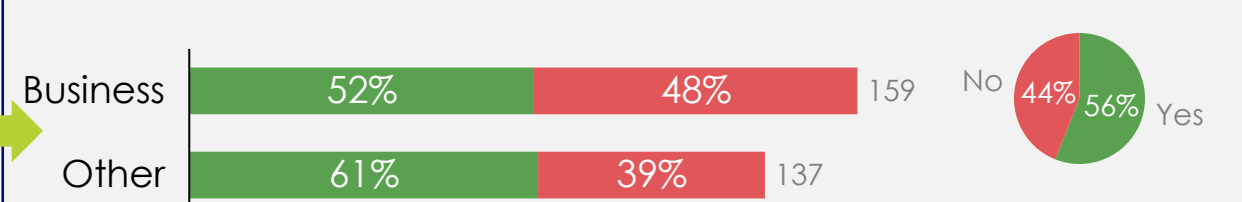
## Define high integrity & ambition action through guidance/ standards



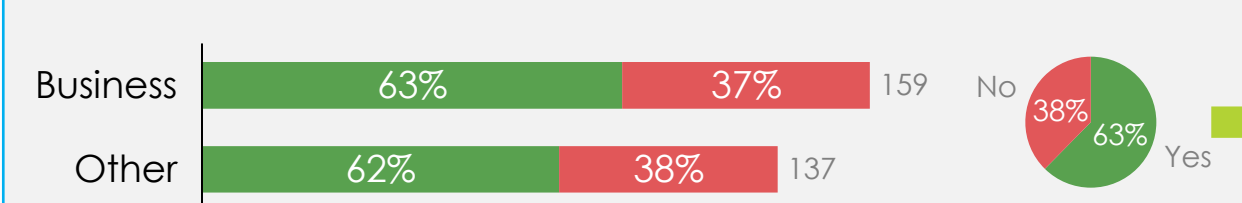
## Enabling transparency (e.g., scoring/ ranking of corporates)



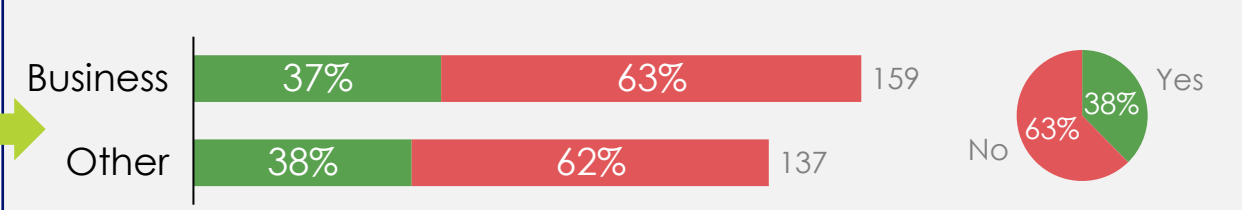
## Enabling transparency (e.g., scoring/ ranking of corporates)



## The need for more to be done to articulate the business case

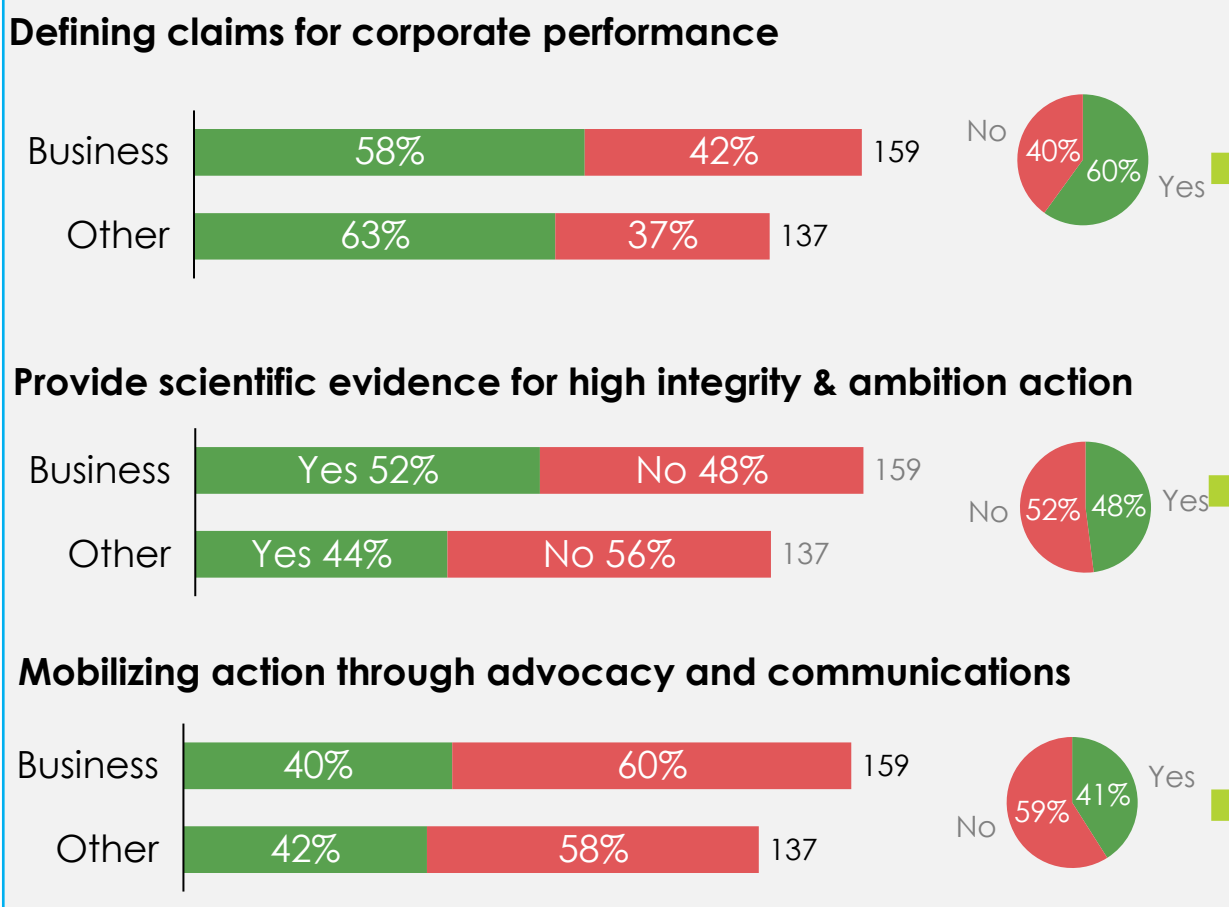


## The need for more to be done to articulate the business case

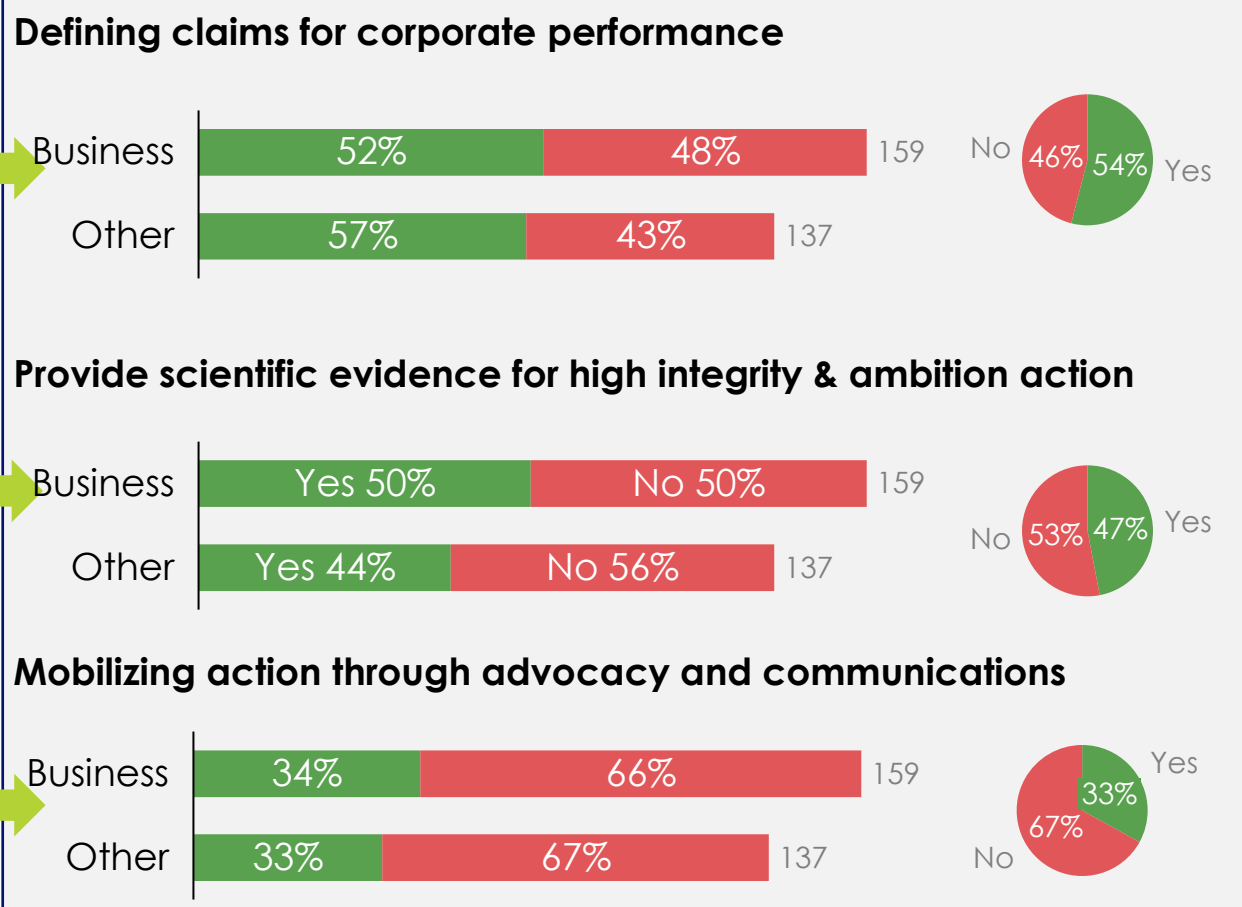


# More respondents think SBTi should develop the claim than respondents who did not

What more could be done to incentivize companies to go above and beyond abatement to voluntarily mitigate GHG emissions beyond the corporate value chain?



What role should SBTi play in this??



\*Businesses categorised as consultants on sustainability and net zero topics are included in "other"



# Summary of landscape assessment

## Legend

M | Mobilizer    
 S | Standard-setter    
 BN | Business-facing NGO    
 CM | Carbon market    
 R | Research / academia    
 C | Civil society orgs    
 B | Business

● Focus of attention    
 SBTi partners are not included

	REASON WHY WOULD A COMPANY DO THIS		METHOD HOW CAN A COMPANY DO IT		ENCOURAGEMENT EXTRA PUSH FOR THE LAST MILE	
	Providing scientific evidence for high integrity and high ambition action	Articulating the business case for high integrity and high ambition action	Carbon market-based approaches (i.e. credits)	Beyond carbon market-based approaches	Mobilizing high ambition and high integrity action	Enabling transparency (including incentives through scoring & ranking)
M   UN Net-Zero Asset Owners Alliance		●	●			
M   NewClimate Institute	●			●	●	
M   UNFCCC / Climate Neutral Now					●	
M   TSVCM			●		●	
BN   NICFI	●					
S   Greenhouse Gas Protocol			●	●	●	
S   Verra			●		●	
BN   Clean cooking alliance					●	
BN   WBCSD					●	
BN   We Mean Business					●	
BN   Proforest					●	
CM   Emergent		●				
CM   Gold Standard / SustainCERT			●	●		
R   Carbon Market Watch			●			
R   VCMi	●		●			
C   Climate Action Network	●				●	●
C   EDF					●	
B   Ikea		●				
B   Mars		●				
B   Swiss Re		●				
B   Unilever		●				
B   Amazon		●				

## Key insights

- Among SBTi's priority stakeholders, that are many parties mobilizing actions and providing guidance for high ambition and high integrity action.
- There is potentially a gap in action to enable transparency, for example, by a scoring/ranking system. But note CDP is not included in this visualisation.
- There is potentially a gap in parties providing scientific evidence for high integrity and high ambition action.

25 Greenpeace and San Jose principles for high ambition and integrity in international carbon markets were also contacted for an interview but no response or availability.



# 3. ASSESSMENT OF DIFFERENT APPROACHES COMPANIES CAN TAKE TO BEYOND VALUE CHAIN MITIGATION

# We identified 3 high level approaches to BVCM

Each of these approaches need to be in addition to a science-based emission reduction target

- 1** **“Tonne for tonne”\***: purchase and retire carbon credits to match some portion of unabated and/ or historic emissions

*Company X is on track to achieve its approved SBT and purchased carbon credits to match 100% of unabated emissions each year.*
- 2** **“Dollar for tonne”\***: Price remaining emissions to determine an annual financial investment into BVCM

*Company X is on track to achieve its approved SBT and applies a \$40 to remaining carbon emissions and uses that to finance BVCM.*
- 3** **“Dollar for dollar”\***: e.g. a % of profits to finance climate action beyond the value chain

*Company X is on track to achieve its approved SBT and invests 1.5% of profit into BVCM.*

27 \* Note we don't propose these are the final terms to be used

# We defined a set of “high integrity” criteria against which to test the 3 approaches and define the minimum standards

## High integrity criteria

- 1 In addition to abatement (and neutralization of residual emissions) not a replacement.
- 2 Supporting emissions reductions/ removals that would otherwise not happen e.g., beyond value chains and/or in lower income countries in need of financial assistance.
- 3 Supporting the most urgent climate action as defined by science – e.g., decommissioning coal plants or actions which would prevent carbon sinks from becoming sources.
- 4 Guaranteeing safeguards and delivering benefits related to wider SDGs.
- 5 Focusing on systems transformation e.g., infrastructure-level R&D or sourcing NBS credits from J-REDD+.
- 6 Transparent reporting and not misleading stakeholders.
- 7 Supported by progressive climate policy advocacy and lobbying.
- 8 With a measurable outcome in terms of climate mitigation.\*

*\*Note that when investing in e.g. R&D or in climate education campaigns, it is not always possible to guarantee a specific mitigation outcome. However, they are still important and necessary investments. Where possible there should be in place monitoring and measurement systems to quantify the impact of these investments to create transparency.*

# Assessment of Approach 1 – “tonne for tonne”

“Tonne for tonne”: purchase and retire carbon credits to match some portion of unabated and/ or historic emissions

## Pros

- Easy to communicate & understood – established claims that companies use such as “carbon neutral”.
- Some argue that market-approaches deliver at least cost to society.
- So long as supply-side integrity exist and risks for non-permanence are managed, delivers certainty of mitigation outcome.
- Jurisdictional approaches can deliver mitigation action at scale.
- Work ongoing within TSVCM tying co-benefit attributes to credits.

## Cons

- Fear of greenwash as market tarnished by credits replacing/ delaying abatement.
- Can be misleading e.g., “carbon neutral fuel”.
- Supply-side integrity concerns, including inflated baselines, non-permanence, lack of social and environmental safeguards.
- Debates about need for corresponding adjustments with NDCs.
- Does not consider ability to pay – sectors with largest cost for abatement might need to be judged differently.
- Locks in current solution set – lacking transformation.

## Options for minimum standards

- Credits must be retired and not sold on.
- Verified and additional credits with permanence risk management and social and environmental safeguards.
- At least to cover all Scope 1 and 2 emissions, or some form of ratcheting over time to full coverage.
- Transparent reporting on price, volume, provenance.
- Transparent claims to avoid misleading consumers and other stakeholders.

### Outstanding issues to be resolved

- Corresponding adjustments.
- Supply-side integrity and guardrails.
- Whether to specify a hierarchy to direct finance where it is most needed e.g. focus on emissions reductions for the next 10 years, or whether to let the market decide, or focus on jurisdictional-REDD where there is supply available.

# Assessment of Approach 2 – “dollar for tonne”

“Dollar for tonne”: Price remaining emissions to determine an annual financial investment into BVCM

## Pros

- Founded on the well-known polluter pays principle.
- Flexibility to invest in climate action such as R&D or consumer education or capacity building which are in need of finance, but which can't guarantee mitigation outcomes.
- If designed well, could circumvent the debate around corresponding adjustments and could deliver finance for countries to meet and enhance their NDC ambition.
- Social cost of carbon generally higher than the market price at the moment so would lead to increased flows.

## Cons

- No clearly established “claim”.
- Difficult to compare companies' actions – risk of lack of transparency without appropriate guardrails and transparency infrastructure.
- Inconsistent use of social cost of carbon.
- Difficult to calculate social cost of carbon.
- Does not take into account ability to pay – sectors with largest cost for abatement might need to be judged differently.
- Companies may not be able to afford to pay this – it could erode significant profit. And as such potentially unlikely to adopt it.

## Options for minimum standards

- Potential to set the minimum social cost of carbon.
- At least to be priced on all Scope 1 and 2 emissions, or some ratcheting over time for full coverage to include Scope 3.
- Transparent reporting on beneficiaries would be required.
- Transparent claims would be required.

## Outstanding issues to be resolved

- Potential need for a claim which is attractive to companies.
- Complexity of social cost of carbon.
- Whether to specify a hierarchy to direct finance where it is most needed.
- What counts – can companies count investment into companies which would have happened anyway?
- How to make it transparent and comparable i.e., which metrics companies should report on.

# Assessment of Approach 3 – “dollar for dollar”

“Dollar for dollar”: e.g. a % of profits to finance climate action beyond the value chain

## Pros

- Capacity-based allocation which means there is nuance between companies and sectors
- Attractive consumer-facing claim
- Easy to define
- Easy to validate

## Cons

- Companies often seek to reduce tax liabilities as it is, why would they adopt another one?
- Cash rich sectors like tech will take the burden despite having low legacy emissions.
- Difficulty in defining what the % should be.
- Companies might struggle to explain why they're only paying for mitigation – what about adaptation, nature, poverty, etc.? Where to draw the line?
- Need to also build transparency and rules about how it is spent.

## Options for minimum standards

- Set the minimum % of profit, potentially based on what we think companies would accept but which would generate significant finance flows.
- Transparent reporting on beneficiaries would be required.
- Transparent claims would be required.

### Outstanding issues to be resolved

- What % is right?
- Develop rationale for what it can be spent on e.g. what about adaptation?
- Create rules for ensuring this is for public goods and additional action and not what they would have invested anyway as part of value chain action.

# We identified 4 principles for defining “how much” BVCM a company might need to do to achieve recognition from SBTi

## 1 Polluter pays

A company would pay for an equivalent amount of mitigation to match the social impact of the emissions they continue to release as they transition. This could also include payment for historic emissions.

## 2 Economic capacity/ ability to pay

Where companies or sectors with high financial capacity have greater responsibility. This might result into the high-emitting harder-to-abate sectors having lower responsibility for BVCM because the cost of their own abatement would be much higher.

## 3 What climate needs

Dividing up what mitigation action is not being covered by countries or other companies and splitting that between the companies that opt into BVCM proportional to their own emissions.

## 4 What business will accept

An arbitrary number (which might ratchet over time) based on what we think businesses will accept.



# We mapped pros and cons for the different principles for defining “how much” BVCM would be needed



	Polluter pays	Economic capacity/ ability to pay	What climate needs	What business will accept
+	<ul style="list-style-type: none"> <li>Internalization of externalities (businesses pay social costs).</li> <li>Estimates of social costs of carbon often much higher than market prices for credits and it would therefore generate larger sums of finance.</li> </ul>	<ul style="list-style-type: none"> <li>Companies with greatest financial means have the greatest capacity to solve ecological and social problems.</li> <li>Can use straight forward methodologies e.g. pay 1.5% of your profit to BVCM.</li> </ul>	<ul style="list-style-type: none"> <li>Would be most aligned with what is needed to keep within 1.5°C.</li> </ul>	<ul style="list-style-type: none"> <li>Would have higher adoption and would raise BVCM finance at pace.</li> <li>Avoids having to justify a science-based or equity-based approach.</li> </ul>
-	<ul style="list-style-type: none"> <li>Businesses may not be able to generate sufficient profit to compensate for damage.</li> <li>Difficult to determine social cost of carbon.</li> <li>Inconsistency in values chosen for social cost of carbon/ GHGs.</li> </ul>	<ul style="list-style-type: none"> <li>Challenging for harder-to-abate sectors which have higher costs associated with internal abatement.</li> <li>Straight taxes might not be attractive to companies.</li> </ul>	<ul style="list-style-type: none"> <li>Extremely difficult to define and manage since it depends on how many companies opt in to BVCM and the size of the ambition gap (as dictated by country action and other companies) which will be in a constant state of flux.</li> </ul>	<ul style="list-style-type: none"> <li>Not necessarily what climate needs.</li> <li>Hard for SBTi to justify.</li> <li>Not sufficiently nuanced to account for different impacts or economic capacity of different sectors/ companies.</li> </ul>

# The different BVCM approaches could entail significantly different costs for businesses

- Company X is a food and beverage company with 1 million tCO<sub>2</sub>e of Scope 1 and 2 emissions in 2020, and 15 million tCO<sub>2</sub>e Scope 3 emissions.
- It had revenue of \$50 billion and profits of \$5 billion in the same year.

Cost when covering just S1+2

Cost when covering S1-3

**1** “**Tonne for tonne**”: purchase and retire carbon credits to match some portion of unabated and/ or historic emissions

*Company X is on track to achieve its approved SBT and purchased carbon credits at \$3 to match 100% of unabated emissions in 2020.*

**\$3 million - \$48 million cost**  
**0.006% - 0.1% of revenue**  
**0.06% - 1% of profit**

**2** “**Dollar for tonne**”: Price remaining emissions to determine an annual financial investment into BVCM

*Company X is on track to achieve its approved SBT and applies a \$40 to remaining carbon emissions and uses that to finance BVCM.*

**\$40 million - \$640 million cost**  
**0.08% - 1.3% of revenue**  
**0.8% - 13% of profit**

**3** “**Dollar for dollar**”: e.g. a % of profits to finance climate action beyond the value chain

*Company X is on track to achieve its approved SBT and invests 1.5% of profit into BVCM.*

**\$75 million cost**  
**1.5% of profit**  
**0.15% of revenue**



# If all SBTi approved companies adopted BVCM across 100% of S1 + 2 this would generate \$8.5 - \$114 billion of climate finance depending on the chosen approach

The table below shows what could be possible through either the “dollar for tonne” model where the social cost of carbon would be closer to \$40/ tCO<sub>2</sub>e<sup>i</sup>, versus a market-based model where credits are currently much cheaper – on average around \$3/tCO<sub>2</sub>e<sup>ii</sup>.

	Nov 2020	As at Oct 2021 (extrapolated based on Nov 2020 data)		
	10% of S1 - 2	10% of S1 - 2	50% S1-2	100% S1-2
# companies committed to SBTi	1000	1970	1970	1970
% approved	41%	49%	49%	49%
# companies w/ approved targets	410	970	970	970
Scopes 1 & 2 emissions within targets (tCO <sub>2</sub> e)	1.2 billion	2.8 billion	2.8 billion	2.8 billion
Scopes 1&2 matched with BVCM (tCO <sub>2</sub> e)	120 million	283 million	1.4 billion	2.8 billion
Inc. compared to 2020 VCM (95 million tCO <sub>2</sub> e )	26%	199%	1394%	2888%
Total finance generate at \$40/tCO <sub>2</sub> e	\$4.8 billion	\$11.4 billion	\$56.8 billion	\$114 billion
Cost per company (av) at \$40/tCO <sub>2</sub> e	\$11.7 million	\$11.7 million	\$58.5 million	\$117 million
Total finance generated at \$10/ tCO <sub>2</sub> e	\$1.2 billion	\$1.2 billion	\$14 billion	\$28 billion
Cost per company (av) at \$10/tCO <sub>2</sub> e	\$2.9 million	\$2.9 million	\$14.6 million	\$29 million
Total finance generated at \$3/ tCO <sub>2</sub> e	\$360 million	\$852 million	\$4.3 billion	\$8.5 billion
Cost per company (av) at \$3/tCO <sub>2</sub> e	\$880,000	\$880,000	\$4.4 million	\$8.8 million

The “**dollar for tonne**” approach based on a \$40/tCO<sub>2</sub>e social cost of carbon would yield >\$100 billion if applied to all Scopes 1-2, costing on avg. \$117 million per company

With the avg. cost of a carbon credit at \$3/ tCO<sub>2</sub>e today, the “**tonne for tonne**” approach covering 100% of Scopes 1 and 2 would yield \$8.5 billion costing on avg. \$8.8 million per company

**Note, we don't have profit data for SBTi companies so cannot assess the financial potential of approach 3 – “dollar for dollar”**

# If SBTi chooses to take a role in incentivizing and enabling BVCM, our recommendations are as follows:

## On the approach to BVCM

Each of the approaches have pros and cons and there was no clear winner identified in the surveys and interviews. Our recommendation is therefore that – if the SBTi chooses to take a role - it should point to a variety of different approaches and define minimum standards for integrity and level of ambition across each.

## On defining “how much”

There is a need for further analysis of ability and willingness to pay across sectors – this will involve further engagement with businesses and deeper understanding of cost of within value chain abatement.

## On where finance should be spent

More research is needed on:

- What is the scale of and where is the mitigation potential and need not being covered by either NDCs, policy action or by companies acting within their value chains?
- Where is finance most needed?

# 4. OPTIONS FOR SBTI

# There are a number of considerations regarding the role SBTi should play in incentivizing and enabling BVCM

## ➤ Whether or not there is a gap in the market that needs filling



More is needed to incentivize and enable action on all fronts, but in particular through guidance, standards and greater transparency.

## ➤ Whether or not companies and other actors see a value in the SBTi playing this role



Survey respondents think that SBTi should provide guidance and standards and potentially define claims and enable transparency.

## ➤ Whether or not SBTi has the resources and capacity to deliver this



SBTi could likely access funding for this but the current SBTi (fully seconded) team does not have deep expertise in this area and so new resource would need to be brought on board.

## ➤ Whether or not SBTi has or can easily access the relevant expertise



Deep expertise across the SBTi partners in this field...



...but unclear whether these could be brought on in a fully seconded model or not.

# There are [7] steps in target/ claim validation process



## Standard setting & defining best practice

The upfront standard setting would require deep expertise and significant resource for the period over which the standard would be developed.

There is lots of good work already happening across this space but we estimate a full team for at least 9 months – including time for public consultation.

There is a risk that if SBTi delays in announcing this work that others will step in.

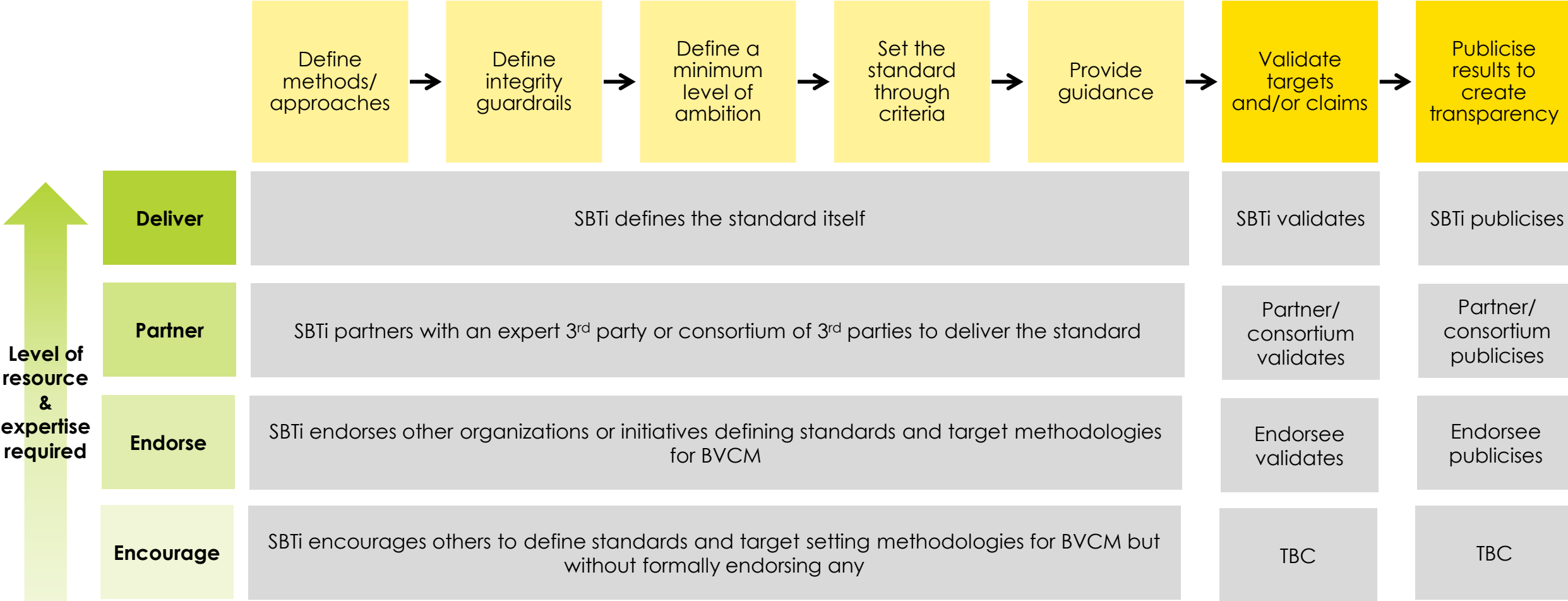
## Ongoing validation

Teams at hand to answer queries about the standard/ guidance and to validate target/ claim submissions.

Work to maintain updated list of companies on the website.

Since claims are not forward looking necessarily, may need annual validation of claims.

# And a continuum of options for the SBTi to work across each



Within this continuum, there is also the option as to whether targets are recommended or required



# We have mapped 13 specific options for SBTi

	Standard incl. target/ claim methodology & criteria/ recommendations & guidance	Target / claim validation	Target recommended or required
<i>Who delivers?</i>			
Option 1.a	SBTi	SBTi	Required
Option 1.b			Recommended
Option 2.a	SBTi appointed 3 <sup>rd</sup> party/parties	SBTi	Required
Option 2.b			Recommended
Option 3.a	SBTi endorsed initiative(s)/ standard(s)/ organization(s)	SBTi	Required
Option 3.b			Recommended
Option 4.a	SBTi	SBTi appointed/ accredited 3 <sup>rd</sup> party/parties	Required
Option 4.b			Recommended
Option 5.a	SBTi appointed 3 <sup>rd</sup> party/parties	SBTi appointed/accredited 3 <sup>rd</sup> party/parties	Required
Option 5.b			Recommended
Option 6.a	SBTi endorsed initiative(s)/ standard(s)/ organization(s)	SBTi endorsed initiative(s)/ standard(s)/ organization(s)	Required
Option 6.b			Recommended
Option 7	Do nothing	Do nothing	n/a

# First consideration – should the target be required or optional?



## Target required

- Creates strong market signal that BVCM is the new bar for corporate leadership
- Creates strong demand signal e.g., incentive for tropical forest countries and innovators to scale up supply of BVCM

- Significant risk that it would reduce rate of adoption of SBTs and even the potential that companies would drop out, deeming the requirements “too hard”

## Target recommended

- Unlikely to affect rate of adoption of near-term and long-term SBTs by raising barriers to entry

- Optional targets may not create strong enough incentive to raise significant private finance for BVCM in line with what is needed to safeguard 1.5°C
- Doesn't create as strong a demand signal e.g., incentive for tropical forest countries and innovators to scale up supply of BVCM

**We recommend targets are recommended and not required, at least in the interim e.g. next 5 years.**

# If you agree, this reduces it to 7 options for which we consider pros and cons

	Standard incl. target/ claim methodology & criteria/ recommendations & guidance	Target / claim validation	Target required or recommended
<i>Who delivers?</i>			
<b>Option 1.b</b>	SBTi	SBTi	Recommended
<b>Option 2.b</b>	SBTi appointed 3rd party/parties	SBTi	Recommended
<b>Option 3.b</b>	SBTi endorsed initiative(s)/ standard(s)/ organization(s)	SBTi	Recommended
<b>Option 4.b</b>	SBTi	SBTi appointed/ accredited 3 <sup>rd</sup> party/parties	Recommended
<b>Option 5.b</b>	SBTi appointed 3rd party/parties	Delivered by SBTi appointed/ accredited 3rd party/parties	Recommended
<b>Option 6.b</b>	SBTi endorsed initiative(s)/ standard(s)/ organization(s)	SBTi endorsed initiative(s)/ standard(s)/ organization(s)	Recommended
<b>Option 7</b>	Do nothing	Do nothing	n/a

In options 1-6, the targets/ claims would be publicised on SBTi’s website.

# Option 1

	Standard incl. target/ claim methodology & criteria/ recommendations & guidance	Target / claim validation	Target required or recommended
Option 1	Delivered by SBTi	Delivered by SBTi	Recommended

## What does this look like?

- SBTi would need to bring deep expertise into SBTi, either from beyond or within the SBTi partner organizations.
- This team would likely be larger over the short term during development of the standard but would need to exist in the longer term to update the standard as required and to validate targets.



- Ability to ensure high integrity and high ambition since both standard development and target validation will sit within SBTi.
- SBTi partner organizations have deep expertise in these areas.
- Strong SBT brand and “one stop shop” for target setting would incentivize companies.



- High resource requirement over time.
- Would need to bring expertise in from beyond or within the SBTi partner organizations, and it might take time to mobilize this team.
- May be seen as “detracting resource from abatement” internally in SBTi.
- As a standards organization, should SBTi be validating targets?

**We recommend that if SBTi is moving away from target validation in general that this might not be the best approach. But SBTi wouldn't necessarily need to decide now on the validation aspect.**

# Option 2

	Standard incl. target/ claim methodology & criteria/ recommendations & guidance	Target / claim validation	Target required or recommended
Option 2	Delivered by SBTi appointed 3rd party/parties	Delivered by SBTi	Recommended

## What does this look like?

- SBTi would need to appoint a 3<sup>rd</sup> party which would require input from experts in the SBTi partner organizations to develop the RfP and to assess and select a 3<sup>rd</sup> party/ consortium of 3<sup>rd</sup> parties.
- There would likely need to be some resource in the SBTi dedicated to working on this with the 3<sup>rd</sup> parties, and then in the longer term to manage updates to the standard and to validate targets.



- Some ability to ensure high integrity and high ambition since SBTi will appoint 3<sup>rd</sup> parties and conduct validation.
- Limits resource requirement as leg work will be led by 3<sup>rd</sup> party and possible ability to mobilize quickly with a number of 3<sup>rd</sup> parties interested in this work.
- We heard from companies that this would still need to be under the SBTi brand to incentivize companies.



- 3<sup>rd</sup> parties might need to be open to developing standards for different approaches and yet there are polarized views on this and so it is unclear whether they would be open to this.
- As a standards organization, should SBTi be validating targets?

**We recommend that if SBTi is moving away from target validation in general that this might not be the best approach. But SBTi wouldn't necessarily need to decide now on the validation aspect.**

# Option 3

	Standard incl. target/ claim methodology & criteria/ recommendations & guidance	Target / claim validation	Target required or recommended
Option 3	Delivered by SBTi endorsed initiative(s)/ standard(s)/ organization(s)	Delivered by SBTi	Recommended

## What does this look like?

- SBTi would need to develop criteria for endorsing standards/ initiatives and/or organizations to ensure high integrity and high ambition standard development.
- There would likely need to be some resource in the SBTi dedicated to assess endorsed standards over time, and then in the longer term to manage updates to the standard and to validate targets.



- Allows SBTi to focus on abatement while pointing to other initiatives working in this space.
- Low resource requirement.



- Companies and interviewees believed that the SBTi brand was important in getting companies on board – might not create strong enough incentive for BVCM.
- As a standards organization, should SBTi be validating targets, (especially since they would not have developed this standard themselves)?

**We do not recommend this approach as SBTi would have limited control over the standard and therefore it would not make sense for them to be responsible for target validation.**

# Option 4

	Standard incl. target/ claim methodology & criteria/ recommendations & guidance	Target / claim validation	Target required or recommended
Option 4	Delivered by SBTi	Delivered by SBTi appointed/ accredited 3 <sup>rd</sup> party/parties	Recommended

## What does this look like?

- SBTi would need to bring deep expertise into SBTi, either from beyond or within the SBTi partner organizations.
- This team would likely be larger over the short term during development of the standard but there would need to be some resource in SBTi to oversee target validation by SBTi appointed/ accredited parties.



- Ability to ensure high integrity and high ambition since both standard development will sit within SBTi.
- SBTi partner organizations have deep expertise in these areas.
- Strong SBT brand and “one stop shop” for target setting would incentivize companies.
- Outsourcing of validation is best practice for standard setters.

- Exposes SBTi to any reputational risk of external validators.
- High resource requirement in initial phase.
- Would need to bring expertise in from beyond or within the SBTi partner organizations, and it might take time to mobilize this team.
- May be seen as detracting resource from abatement internally in SBTi.

**We recommend this as our preferred option.**

# Option 5

	Standard incl. target/ claim methodology & criteria/ recommendations & guidance	Target / claim validation	Target required or recommended
<b>Option 5</b>	Delivered by SBTi appointed 3rd party/parties	Delivered by SBTi appointed/ accredited 3rd party/parties	Recommended

## What does this look like?

- SBTi would need to appoint a 3rd party which would require input from experts in the SBTi partner organizations to develop the RfP and to assess and select a 3rd party/ consortium of 3rd parties.
- There would likely need to be some resource in the SBTi dedicated to working on this with the 3rd parties, and then in the longer term to oversee updates to the standard and to oversee target validation by 3rd parties.



- Some ability to ensure high integrity and high ambition since SBTi will appoint 3rd parties and oversee validation.
- Limits resource requirement as leg work will be led by 3rd party and possible ability to mobilize quickly with a number of 3rd parties interested in this work.
- We heard from companies that this would still need to be under the SBTi brand to incentivize companies.
- Outsourcing of validation is best practice for standard setters.

- Exposes SBTi to any reputational risk of external parties setting the standard and validators.
- 3rd parties might need to be open to developing standards for different approaches and yet there are polarized views on this and so it is unclear whether they would be open to this.
- Companies and interviewees believed that the SBTi brand was important in getting companies on board – might not create strong enough incentive for BVCM.

**We recommend this as our second favourite option.**



# Option 6

	Standard incl. target/ claim methodology & criteria/ recommendations & guidance	Target / claim validation	Target required or recommended
<b>Option 6</b>	Delivered by SBTi endorsed initiative(s)/ standard(s)/ organization(s)	Delivered by SBTi endorsed initiative(s)/ standard(s)/ organization(s)	Recommended

## What does this look like?

- SBTi would need to develop criteria for endorsing standards/ initiatives and/or organizations to ensure high integrity and high ambition standard development.
- There would likely need to be some resource in the SBTi dedicated to assess endorsed standards over time, and then in the longer term to monitor activity by SBTi endorsed initiatives.



- Allows SBTi to focus on abatement while pointing to other initiatives working in this space.
- Low resource requirement.



- Companies and interviewees believed that the SBTi brand was important in getting companies on board – might not create strong enough incentive for BVCM.

**We do not recommend this approach because the SBTi needs to promote BVCM for it to scale at the pace and scale needed.**

# Option 7 – do nothing

	Standard incl. target/ claim methodology & criteria/ recommendations & guidance	Target / claim validation	Target required or recommended
Option 6	Do nothing	Do nothing	n/a

### What does this look like?

- SBTi would just recommend that BVCM is worthwhile and perhaps list some initiatives working in this space but without any formal endorsement.



- Allows SBTi to focus on abatement while pointing to other initiatives working in this space.
- No resource requirement.



- Highly unlikely to incentivize and enable companies.

**We do not recommend this approach because the SBTi needs to promote BVCM for it to scale at the pace and scale needed.**

S Y S T E M I Q



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